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WEALTHWISE®

Wiseinvest®
AMFI-registered Mutual Fund Distributor

Inside

Wealthwise

"Wealthwise" is a monthly publication brought to you by Wiseinvest, an AMFI-registered Mutual Fund Distributor. Our CEO, Hemant Rustagi, is a well known personal finance expert. He brings with him an experience of more than 30 years in this field. He regularly writes articles for major national dailies and business magazines as well as appears as a personal finance expert on many investments related TV shows. Providing quality service is our top priority. In keeping with that, we constantly take steps to provide up-to-date information to our clients. In the last seventeen years, thousands of our clients have made mutual funds the mainstay of their portfolios. You can benefit too from our service support for your existing as well as new investments. All you need to do is to just call up any of the offices or email your requirements at **information@wiseinvest.co.in.**

Dear Investor,

The Indian market remained flat during the month of October. Overall, the market outlook has turned cautious because of US Elections and the Second wave of Covid-19 in some countries. In fact, there are mixed views on how the global stock markets will react post US Elections results are announced. While there are some who believe that re-election of Donald Trump as US President would mean continuity in market friendly policies, there are others who don't expect much reactions from the markets and believe that market will take directions from the stimulus announcements in the US rather than who is elected as the President.

An analysis of the results announced so far shows that after a drop in sales and profits in the June quarter, Indian corporates have been able to report a YOY growth in September quarter helped by a gradual demand recovery, supply chain restoration and higher cost efficiencies. While companies in banking, consumer goods, IT, and Pharma sectors added to profit growth, those in automobiles, realty, and textiles reported a fall in profit. While the overall credit book for some lenders shrunk for them, most banks and NBFCs saw their home loans, vehicle and farm loans surpassing pre-Covid levels during September quarter.

A sample of over 200 companies that declared results for the September quarter reported 23 percent YOY growth in the aggregate net profits, the highest in nine quarters. In fact, the revenues grew by 4.1 percent over a 10.5 percent drop in the previous quarter. Although the overall trend will become clearer as more companies from auto, capital goods, cement, media, realty, retail that were severely affected by the pandemic declare results in the coming weeks, the green shoots of the recovery in the economy are quite evident. India's core sector output recovered in September, underlining the revival in the economy from the Covid-19 induced lows. However, the Rupee became the worst performing regional currency in September on account of worries related to the pandemic, fund flows and the US Elections.

Investors holding equity funds in their portfolio as a part of their long-term investments can expect improved performance from them going forward. Of course, the key would be to have a portfolio that suits their needs and risk profile as well as follow a disciplined process.

Warm regards,

Hemant Rustagi
Editor

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The Stock Market Performance During October 2020.

Indices	1st October 2020	30th October 2020	Change in (%)
Sensex	38,697.05	39,614.07	2.37
MIDCAP	14,813.25	14,904.62	0.62
SMLCAP	14,970.44	14,888.08	-0.55
BSE-100	11,554.38	11,720.76	1.44
BSE-200	4,844.47	4,910.04	1.35
BSE-500	15,038.24	15,215.01	1.18

Equity Market Outlook

The festive season in India is underway. The Dussehra festival (signifying good over evil) just got over, and Diwali (festival of lights) is in mid-November. This is a period Indians consider auspicious for making new purchases – whether cars, homes, white goods or electronics. Hence this is an important indicator of demand in the context of a macro slowdown, and we have been trying to glean this information from management commentaries in the Sep-quarter earnings calls.

Earnings festivities: The catchphrase of the past week from our analyst team has been "these margins are the highest ever reported" - across a variety of sectors and companies. Margin expansions of 400-500 bps are not uncommon, driven by better cost control (lower employee, travel and promotional spends). To be sure, some of this will reverse and normalize over time. However the direction of profitability improvement is certainly encouraging. A point-wise update on select sectors follows:

- Banks, down ~25% from pre-Covid peak prices, are reporting collection efficiencies well above 90%.
- YoY growth in car sales and ~90% of last year sales for 2 wheelers (preference for personal mobility).
- Rural housing and infra demand leading to beats on cement companies volumes and margins.
- Petrol and diesel demand have shown YoY growth, while aviation fuel lags at ~57% (but better than Sep).
- Sharp rebound in IT sector driven by vendor consolidation, tech investments and digital (cloud, analytics).
- Metals - domestic demand recovered to 80-90% of last year's level on both steel and non ferrous.
- Infra – improving project execution led by availability of labour (~85% pre-Covid), timely disbursal of payments from govt. entities, easing of supply side constraints and healthy order book (~3.5x revenues)

Covid19 – significant improvement: Against a global backdrop of increasing cases and lockdowns, India's new cases at ~45k/day, are down 50% from the mid-Sep peak. The number of deaths too at ~500 per day has more than halved, while the detection rate (daily cases/daily tests) has fallen to 4% from 9% in Sep. While northern India can see cold winters (~0-10°C), these are much milder than US/EU. For the rest of India, winters tend to be much warmer, so we expect Covid19 to abate from here on. Currently restricted activities are large gatherings (marriages/events), while education is being conducted online. Localized restrictions apply on places of worship, cinemas and public transport. For an interesting summary of various indicators by activity versus pre-Covid levels, please see Chart of the Month below.

Production Linked Incentives (PLI) to boost manufacturing: The govt. has introduced PLI scheme, to provide a 4-6%-of-sales incentive over the next 5 years for mobile phone manufacturing in India. After receiving several applications, the govt. has cleared 16 companies to go ahead. Of these, some are domestic companies, while 3 are global contract manufacturers for Apple iPhones. Apple (37%) and Samsung (22%) together account for nearly 60% of global sales revenue of mobile phones. If done right, this scheme can kick-start a manufacturing revolution in the country and create much needed jobs. We expect the govt. to announce similar schemes for other sectors as well in the coming weeks.

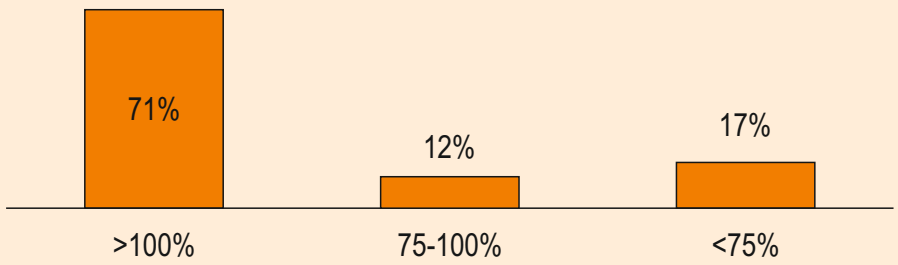
Reserve Bank of India maintained rates at 4% (policy repo), and retained their accommodative stance till 31st March 2021, despite high inflation (7.34%, CPI, Sep-20). They have wisely chosen to look through the current prints, and estimate ~80% of inflation deviation from target is from food supply shocks and oil prices (higher domestic duties). The RBI also announced measures to improve rate transmission. Owing to systemic risk aversion, the spread between the weighted average lending rate and policy repo is ~450 bps, the highest in recent years. A lower lending rate will reduce borrowing costs – critical, given the macro environment.

Flows, earnings and valuations: India is the only country among the major Asian economies (ex-China) that has seen foreign inflows this year (+US$ 6bn) versus outflows in Korea (-US$ 23bn), Taiwan (-US$ 21bn), Thailand (-US$ 9bn), Malaysia (-US$ 5bn) etc. However this inflow has been led by capital raises mainly from financial institutions (+US$ 8.5bn). Seen from this lens, India doesn't appear to be an outlier, and the benefit of a vaccine discovery and / or rotation into emerging markets / Asia might still be ahead of us. Further, MSCI announced they would be updating the Foreign Ownership Limits in their November review, taking the weight of India in the MSCI Emerging Markets Index from 8.1% to 8.8%. The Nifty 50 Index trades at ~26x FY20 and ~17x FY22 (the latter requiring an EPS growth of 44% over FY21 on our estimates). The index is not cheap, but may have discounted a recovery to normalcy, not unlike markets across the world.

Chart of the Month: A ramp-up in activity levels is seen based on a composite index created to mimic the real economy. The index uses a combination of agri/rural (25%), broader economy (35%) and predominantly urban (40%) high-frequency indicators. 9 variables are above pre-COVID levels (71% of the index by weight) and includes items such as electricity consumption, toll collections, car sales & agri.

>100%	75-100%	<75%
Agriculture	Passenger vehicle registrations	2 wheeler registrations
E-way bills	Real estate web traffic	Travel app & web traffic
Railway Freight	Workplace mobility	Hotel app & web traffic
Electricity consumption	Transit point traffic	Flights scheduled
E-toll collections	Congestion	Jobs listings on websites
Retail e-transactions		Food delivery app traffic
TV Ads		
Employment		
Auto web traffic		

Weight-wise split of above indicators based on activity vs. pre-COVID



Sources for India Rewind: Internal, Bloomberg, Jefferies Research, CLSA Research, Goldman Research, Morgan Stanley Research.

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Fixed Income Market Update

The India 10 Year G-sec yields reduced by 8 bps in the month of Oct'20 as compared to Sep'20 and fell below the psychological 6% level. This could be attributed to the measures announced by the RBI in the monetary policy (on 9th Oct'20) to boost demand for government securities through increase in OMO purchases, liquidity infusions and increased time limit for keeping government bonds in the HTM category. However, the continued high level of inflation and increase in central government borrowings to compensate the states for GST shortfalls curbed the fall in yields. The RBI had also announced the commencement of on-tap TLTROs for a period of up to 3-year tenor for a total amount of up to INR 1,00,000 crores. The focus of liquidity measures by the RBI is intended to include the revival of activity in specific sectors like agriculture, agri-infrastructure, MSMEs, etc. that have both backward and forward linkages and multiplier effects on growth. The liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by the entities in specific sectors over and above the outstanding level of their investments in such instruments as on 30 September 2020.

Globally, economic activities have picked up with the reopening of economies and led by the rise in consumer discretionary spending. However, some economies have stalled the reopening due to renewed surge in infections and implementation of partial lockdowns. The FOMC remained status quo and kept the interest rates at 0%-0.25% amidst continuing economic crisis to support recovery from the deep impact of the COVID-19 lockdowns. During the month of Oct'20, the US 10 Year Treasury yields increased substantially by 0.19% and ended at 0.87%. The IMF in its latest World Economic Outlook – Oct'20 has projected the global growth to fall by 4.4% in 2020 and a rebound of 5.2% in 2021.

On the domestic front, both the debt and equity segment saw foreign capital inflows in the month as a contrast to outflows a month ago. FPIs pumped in a net of USD 3.2 bn into the domestic market. Due to lower receipts as a consequence of the lockdown and associated disruptions, the fiscal deficit stood at INR 9.1 lakh crore for the first half of 2020-21, which is 115% of the budgeted fiscal estimates and 40% higher than that of H1 2019-20.GST collections were a total of INR 1.05 lakh crores in Oct'20 which is the highest since Feb'20 and 10% higher than that in Sep'20. The increase in GST collections reflects the higher levels of economic activity being undertaken with the easing of the pandemic induced lockdown. During Apr-Oct'20, total GST collection amounted to INR 5.59 lakh crore which is 20% lower than INR 7.01 lakh crore in the corresponding period of last year. Retail inflation (CPI) rose to an 8-month high of 7.3% in Sep'20 due to high price levels in the food segment accompanied by miscellaneous item components of the CPI. WPI based inflation rose to a 7-month high of 1.3% in Sep'20. This could be attributed to the increase in price levels of food components and manufactured products. After showing continuous increase in previous months, Brent Crude reduced significantly by USD4.33 per barrel in the month of Sept'20 and ended at USD40.95 per barrel on 30th Sept'20 due to worsening Covid-19 pandemic which threatens to bring restriction and hit demand for fuel. The Rupee was largely stable during the month at INR 73.29 per USD. This was in spite of the strengthening of USD and due to higher foreign capital inflows and low trade deficit.

Outlook

After the steep decline into which the global economy fell in the second quarter of 2020, global economic activity appears to have bounced back sequentially in the third quarter, though unevenly. Improvement in manufacturing, labour markets and retail sales enabled strong recoveries in some countries; whereas in others, a rise in new infections prompted a slower pace of unlocking or re- imposition of lockdown which, in turn, hindered the recoveries. The economic growth is likely to remain sluggish in the near term. The measures taken by major central banks would continue to remain extremely accommodative to support incipient economic activity.

On the domestic front, liquidity in the system is expected to remain in a surplus supported by growth in deposits as well measures announced by RBI in monetary policy. Inflation is expected to ease in the next quarter of 2020-21 which may give RBI room to cut rates to support economic recovery. Going forward, economic growth would be largely dependent on agricultural produce as other sectors have been impacted adversely due to the pandemic. Kharif sowing has already surpassed last year's acreage as well as the normal sown area. Improved soil and water conditions have brightened the outlook for the rabi season.

The central bank has taken measures to increase liquidity in certain sectors through recent initiative of on-tap TLTRO and other measures such as OMO purchases, liquidity infusions and increased time limit for keeping government bonds in the HTM category. This should continue to support softer yields in near term, but the continued high level of inflation, and increase in central government borrowings to compensate the states for GST shortfalls, could restrain sharp fall in yields. With the uncertainties continuing to prevail, we recommend investments high quality Short Duration Funds and Corporate Bond Funds depending on the investment horizon of investors as well as Gilt Fund for investors with high risk appetite.

Source: **ICRA MFI Explorer, Bloomberg, RBI, MOSPI.

Avnish Jain
Head of Fixed Income
Canara Robeco Mutual Fund

Disclaimer

Performance Of Select Funds

Data as on October 30, 2020

EQUITY FUNDS

Large Cap, Large & Midcap, Multi Cap

Fund	Launch	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**	7 Year**	10 Year**	15 Year**
ABSL Frontline Equity Fund	Aug-02	17.03	-3.25	3.14	0.49	6.55	10.96	8.89	14.31
ABSL Equity Fund	Aug-98	18.56	-0.17	4.55	1.01	8.70	14.81	9.58	13.75
Axis Bluechip Fund	Jan-10	13.38	1.46	12.67	9.27	10.91	13.09	10.40	—
Axis Focused 25 Fund	Jun-12	16.81	-0.30	9.85	6.69	11.64	13.96	—	—
Canara Robeco Equity Diversified Fund	Sep-03	17.26	6.36	10.80	6.97	9.61	12.42	9.87	13.88
Canara Robeco Emerging Equities	Mar-05	20.38	7.22	8.93	3.32	10.65	22.02	15.40	15.86
HDFC Equity Fund	Jan-95	9.71	-14.42	-3.40	-3.20	4.81	10.30	6.60	13.24
HDFC Top 100 Fund	Oct-96	10.78	-12.82	-2.06	-1.90	5.68	9.71	6.72	13.35
ICICI Prudential Bluechip Fund	May-08	15.65	-3.50	3.28	1.81	7.82	11.06	9.29	—
IDFC Core Equity Fund - Regular Plan	Aug-05	22.45	-1.80	2.07	-0.60	7.80	9.87	6.78	10.29
Kotak Bluechip Fund - Regular Plan	Dec-98	19.86	1.11	8.97	4.34	7.62	11.55	8.43	12.93
Kotak Equity Opportunities Fund	Sep-04	18.53	3.44	9.30	3.12	9.49	13.66	9.51	14.57
Kotak Standard Multicap Fund	Sep-09	16.95	-2.95	6.12	2.65	9.06	14.43	10.56	—
Mirae Asset Emerging Bluechip Fund	Jul-10	22.07	6.30	11.57	5.95	13.99	23.43	17.74	—
Mirae Asset Focused Fund - Regular	May-19	26.85	5.20	—	—	—	—	—	—
Mirae Asset Large Cap Fund - Regular	Apr-08	18.50	-1.31	6.60	3.99	10.25	15.18	11.71	—
Motilal Oswal Multicap 35 Fund	Apr-14	17.41	-5.46	4.96	-0.63	7.95	—	—	—
Nippon India Large Cap Fund	Aug-07	11.21	-13.55	-2.79	-1.71	5.20	11.36	8.15	—
Invesco India Contra Fund	Apr-07	18.72	3.21	5.66	4.09	10.18	16.96	11.03	—
SBI Bluechip Fund	Feb-06	16.48	-4.17	5.50	1.79	6.94	12.36	9.46	—
SBI Focused Equity Fund	Oct-04	12.89	-1.48	8.84	6.28	9.60	16.15	12.99	14.02

Midcap & Smallcap

Axis Midcap Fund	Feb-11	18.44	8.06	12.70	9.96	11.06	18.94	—	—
DSP Midcap Fund - Regular Plan	Nov-06	21.73	9.47	10.98	3.36	10.95	18.96	11.98	—
HDFC Mid-Cap Opportunities Fund	Jun-07	24.25	3.31	3.04	-1.04	7.78	16.86	12.54	—
Kotak Emerging Equity Fund Regular	Mar-07	24.57	5.69	9.01	1.81	9.59	19.83	11.95	—
L&T India Value Fund	Jan-10	22.30	-0.78	2.10	-1.90	7.14	15.94	11.00	—
Motilal Oswal Midcap 30 Fund	Feb-14	22.11	-4.49	3.88	-0.42	4.62	—	—	—

Sectoral / Thematic Fund & Tax Saving

ICICI Prudential Banking and Financial	Aug-08	12.20	-21.92	-4.12	-5.32	7.69	13.61	9.65	—
Nippon India Banking Fund	May-03	13.56	-24.37	-8.58	-7.82	3.65	10.18	5.57	13.93
ICICI Prudential Pharma Healthcare	Jul-18	29.47	56.40	23.53	—	—	—	—	—
Nippon India Pharma Fund	Jun-04	23.45	49.42	19.33	18.49	7.11	16.91	14.80	20.20
SBI Healthcare Opportunities Fund	Jul-99	25.21	50.24	19.30	11.41	2.53	13.54	14.61	13.70
Axis Long Term Equity Fund	Dec-09	13.38	-1.81	9.87	6.67	9.35	16.97	14.06	—
IDFC Tax Advantage (ELSS) Fund	Dec-08	23.40	-0.57	1.70	-1.05	7.39	12.37	9.42	—
Kotak Tax Saver Regular Plan	Nov-05	18.69	1.71	8.43	3.29	8.74	13.93	8.46	—
Mirae Asset Tax Saver Fund	Dec-15	23.28	5.12	10.53	6.42	—	—	—	—

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
ICICI Prudential Equity Arbitrage Fund	Dec-06	1.04	1.65	4.43	5.26	5.65	5.86
IDFC Arbitrage Fund - Regular Plan	Dec-06	1.01	1.55	3.97	5.18	5.57	5.72
Kotak Equity Arbitrage Fund Regular	Sep-05	1.10	1.69	4.51	5.38	5.74	5.94

HYBRID

Fund	Launch	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**	7 Year**	10 Year**	15 Year**
ABSL Equity Hybrid '95 Fund	Feb-95	15.99	-2.71	1.93	-0.71	5.65	10.88	8.61	12.76
Canara Robeco Equity Hybrid	Feb-93	13.46	7.30	10.60	6.95	9.34	13.66	10.88	14.49
DSP Equity & Bond Fund	May-99	13.72	1.97	9.93	4.58	8.56	13.14	9.01	13.30
DSP Dynamic Asset Allocation	Feb-14	9.76	5.78	8.28	5.81	7.52	—	—	—
ICICI Prudential Bal. Advantage	Dec-06	14.59	2.51	7.71	5.29	7.93	—	—	—
ICICI Prudential Equity & Debt	Nov-99	6.91	-8.02	-0.11	-0.57	6.38	11.30	10.25	11.75
IDFC Dynamic Equity Fund	Oct-14	12.85	7.49	8.98	6.06	7.14	—	—	—
Kotak Balanced Advantage	Aug-18	16.06	6.97	10.32	—	—	—	—	—
Kotak Equity Hybrid Fund	Nov-99	19.74	3.28	9.85	4.00	7.98	10.04	8.03	11.21
SBI Equity Hybrid Fund	Dec-95	10.74	-0.69	7.71	4.55	8.04	13.28	10.11	12.63
IDFC Equity Savings Fund	Jun-08	8.09	5.11	5.36	4.34	4.99	—	—	—
Kotak Equity Savings Fund	Oct-14	8.19	5.03	7.00	5.83	7.23	—	—	—

DEBT

Debt Oriented & Ultra Short Term Debt Fund

Funds	Launch	1 Mth*	3 Mth*	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**
ABSL Short Term Fund	May-03	1.30	2.64	8.85	10.32	10.23	8.30	8.51
Invesco India Short Term Fund	Mar-07	1.19	0.89	5.71	9.04	9.82	7.69	7.57
Axis Corporate Debt Fund - Regular	Jul-17	1.39	1.87	8.04	11.33	9.31	8.35	—
HDFC Corporate Bond Fund	Jun-10	1.52	1.58	7.10	11.35	11.55	9.05	9.06
Kotak Corporate Bond Fund	Sep-07	1.14	1.68	6.03	9.32	9.95	8.71	8.51
Kotak Banking and PSU Debt Fund	Dec-98	1.50	1.54	6.91	10.47	11.38	8.94	8.80
SBI Banking and PSU Fund	Oct-09	1.54	1.22	6.23	10.16	10.51	9.00	8.42
ICICI Prudential Savings Fund	Sep-02	0.72	1.53	5.42	8.25	8.79	7.98	8.12
Kotak Savings Fund Regular Plan	Aug-04	0.42	1.03	3.16	6.16	7.34	7.09	7.31
L&T Ultra Short Term Fund	Apr-03	0.36	0.88	2.75	5.83	7.08	6.92	7.28

*Absolute ** Annualised. Past performance may or may not be sustained in future.

Dividends declared by equity and equity-oriented funds during the month of October 2020

Scheme name	Date	Dividend declared in ₹ Per unit
Tata Hybrid Equity Fund - Regular Plan - Dividend - Monthly	05-10-2020	0.22
Sundaram Equity Hybrid Fund - Dividend	05-10-2020	0.12
PGIM India Hybrid Equity Fund - Dividend - Monthly	19-10-2020	0.11
Aditya Birla Sun Life MNC Fund - Regular Plan - Dividend	23-10-2020	8.18
Aditya Birla Sun Life Frontline Equity Fund - Regular Plan - Dividend	23-10-2020	1.34
L&T Large and Midcap Fund - Dividend	23-10-2020	0.14
Edelweiss Aggressive Hybrid Fund - Dividend	27-10-2020	0.17
DSP Equity & Bond Fund - Regular Plan - Dividend	28-10-2020	0.15
LIC MF Equity Hybrid Fund - Plan A - Dividend	29-10-2020	0.10

Please check whether you have received dividend for the fund/s that you may have in your portfolio out of this list. In case, you do not maintain any portfolio statement, Wiseinvest can do that for you free of charge. Once we have the details, we would send your updated statement every month. You can contact our corporate office or our branch to avail of this free service.

Market Outlook

A second wave of virus in the Western world has become a reality. This along with failed negotiations on fresh US fiscal aid and the uncertainty around US presidential elections have acted to keep financial markets volatility high. This led to markets continuing to trade choppy for a second consecutive month, in line with our view. The news locally however was better with the reopening led improvement in economic activity continuing and more importantly Covid infections finally showing signs of moderation. Corporate results too have been better than expectations so far driven by cost control and beat from banks. Yet, given the muted domestic flows, Indian markets continue to be driven by foreign flows and should follow global trends in the near term. Globally a potential double dip in growth owing to fresh Covid-induced lockdowns and fading fiscal support is a key monitorable.

However, the most keenly awaited event in the near term stays the US Presidential election this week. The outcome assumes much greater importance in the wake of a more prominent role for fiscal policy and fragile geopolitics. We have long maintained that globally monetary policy is reaching its limits and that fiscal policy will have to play the dominant role now to reflate the global economy. While the unconventional monetary support of the past decade has certainly helped global economies, it has failed to meaningfully revive growth or inflation. Arguably, the benefits have been skewed with asset inflation being a dominant outcome even as wage inflation has failed to look up. This has led to rising inequality which in turn acts to keep aggregate demand subdued. Fiscal expansion and redistributive policies are therefore the need of the hour to revive growth and inflation. A democratic sweep appears to be the most favourable outcome in this regard.

Democrats are likely to follow a more expansionary fiscal policy with focus on redistribution. Reviving blue collared jobs through infrastructure creation appears high up on agenda. Biden's focus on Green Infra can potentially lead to a new cycle globally. At a time when rates are low, resources are cheap, wage pressures have been absent, and there is need to replace ageing and obsolete infrastructure, with pressing environmental concerns, the timing appears just about perfect. This has the potential to create jobs, revive demand and perk up growth and inflation. To be sure, the current deflationary global environment is also a function of several structural forces such as demographics, globalization, technological advancements to name a few. And these forces are here to stay, and we must not undermine their role in keeping inflation low. However, overall a conducive demand environment will help and lead to a stronger reflationary pulse versus the deflationary environment of the last several years. For corporate America, likely increase in tax burden, regulation and labour costs may dampen margins. Yet a supportive demand environment should offset some of these pressures. Global reflation should help too as MNCs derive a chunk of their earnings from outside the USA. For EMs, global reflation and consequent weaker dollar should both be decisively positive.

Even as the base case currently is of a Democratic Sweep, other scenarios should not be completely ruled out and are likely to be less supportive for markets, especially EMs. A related near-term risk is that if the election results are close and are contested, that can lead to an interim period of policy uncertainty. This will further dampen the hopes of a near term fiscal package in the US at a time when virus surge stays unabated. Overall, we believe that there is need for sustained fiscal support in the western economies. With debt levels now reaching World War II levels, history suggests that this high debt must be paid off through growth, which in turn will require fiscal push. A restrictive or stop-start kind of fiscal policy, we believe, is a key risk to return to sustainable growth and inflation. This can very easily lead to Japanification of the world with deflationary forces continuing to dominate. This has serious implications for investors. While financial repression will mean bond investors suffer, beyond a point equities won't work either as the experience from Japanese equities suggests- Nikkei for example is still significantly lower than the peak it hit over three decades ago. After all, reduction in the discount rate helps to an extent but eventually earnings growth is vital for equities to deliver.

A reflation will not only help equities as an asset class through earnings revival, but it also has implications for the complexion of equities that deliver. Just as there is inequality at an individual level, there has been increasing polarization in stock markets too with select few stocks becoming disproportionate share of overall market cap. These have either been stocks that benefit from lower discounting factor owing to their longer duration cashflow profile and stable earnings or have been on the right side of technological disruption. With growth becoming more broad-based, this polarization should reverse. Looked through other lenses, this would mean reversal in polarizations of value versus growth, small caps versus large caps, cyclicals versus defensives, and also importantly Emerging Markets versus Developed Markets.

For India, a global reflation could just be the icing on the cake. We appear to be preparing ourselves well for sustainable and inclusive growth. On one hand, we have done well on empowering masses through various social initiatives such as sanitation and cleanliness through Swachh Bharat, Ujjwala scheme

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for LPG connections, the JAM trinity (Jan Dhan bank accounts, Aadhar cards and Mobile connections), using technology for benefit transfers to name a few. On the other, we have undertaken a host of legislative reforms to incentivise the private sector, labour and agri reforms, tax reforms, insolvency code, and PLI schemes to incentivize manufacturing, amongst others. Incrementally, we need to stay focussed on execution - expanding our institutional capacity on judicial and administrative fronts, infrastructure creation, ensuring transparency and sanctity of contract. Having focussed on creating the engine of growth, we believe there is a strong need to kickstart that engine through a judicious fiscal boost. While fiscal capacity is constrained, given the savings glut, local as well as global, we must not underestimate our ability to fund a credible growth plan. Once set in motion, the private sector will get in by itself. The private sector on its part must respond with more innovation and strong focus on ESG to ensure sustainable growth for all stakeholders.

On the monetary policy side, the RBI has been aggressive and unconventional in the crisis. Right from ensuring abundant liquidity and providing aggressive rate cuts to unorthodox measures like TLTROs, Operation Twists, OMOs for SDLs and easing of prudential norms, the RBI has not left any stone unturned in supporting growth, while government's credit guarantees have helped provide a multiplier effect. It has been successful in bringing about an easing in credit spreads for better rated corporates as well as in reducing term premium even as the latter is still somewhat elevated. The RBI has so far also overlooked near term challenges on inflation and stayed focussed on reviving growth. Inflation so far has been supply side driven and we hope the government will ensure that it is brought under control through appropriate supply side measures so that the massive monetary effort made so far doesn't need to be reversed.

With RBI staying accommodative and with the moderation in virus spread leading to continued pick-up in economic activity, improvement in transmission should continue, which should further aid economic and corporate activity. 90% companies in our universe are witnessing earnings upgrades. Further pick-up in corporate activity is being underpinned by easing credit spreads, robust durable liquidity growth, low real rates, reduced economic policy uncertainty, steep yield curve etc. Yet it is too early to say whether the virus spread has been decisively controlled with the festive season and winters upon us. The recovery so far may have been pent-up demand led, and how consumption and savings patterns eventually shape up in the aftermath of the crisis, and whether corporates and consumers continue to stay cautious for long is yet to be seen. If anything, the nature of the recovery so far has indeed been 'K' shaped, with widely varying fortunes across sections- rural vs urban, goods vs services, formal vs informal and so on.

We therefore maintain that a fiscal boost is a must to kickstart the long overdue economic and earnings cycle in India. A decisive reflationary shift in global policy can be an added tailwind. Real estate, which has an important bearing on the economy owing to the high multiplier impact, is showing initial signs of recovery which is encouraging. Private sector balance sheets are in better health to capitalize on growth opportunities as they present themselves. We have long been below trend on both economy and earnings and the onus is on all stakeholders to strive and deliver on our potential. We are constructive on duration in fixed income portfolios, while keeping a close watch on inflation, fiscal situation, and global environment. We are anxiously excited on equities as we believe the next earnings upcycle may be near, near term risks notwithstanding.

Navneet Munot
CIO,
SBI Funds Management Private Limited

(Mutual funds' investments are subject to market risks, read all scheme related documents carefully.)

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